



**Investment Office**  
Post Office Box 2749  
Sacramento, CA 95812-2749  
Telecommunications Device for the Deaf – (916) 795-3240  
(916) 795-3400

**October 17, 2005**

**AGENDA ITEM: 5a**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** AIM Strategic Review
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

**Background**

At Staff's request, Pension Consulting Alliance (PCA) has conducted a Strategic Review of the AIM Program. The Review is a follow-up to the review performed by McKinsey & Co in 2000 ("AIM 2000"). The purpose of PCA's Review is to evaluate AIM's progress relative to AIM 2000 and to reset strategies as appropriate. This process is designed to enhance AIM's overall capability, effectiveness, and long term performance as an investor in alternative investments and to further CalPERS' efforts toward being an investor of choice.

**Staff's Commentary on the Strategic Review**

- PCA was thorough in its analysis and, in Staff's view, addressed many of the pertinent issues facing the AIM Program.
- The Review reaffirms the Strategic Plan adopted five years ago through AIM 2000 with a few additional enhancements.
- PCA's findings are very high level. Many substantive issues are raised, and they require thoughtful consideration. Given the evolution of the AIM Program and changes in the private equity marketplace, it is not surprising that substantive findings were reached.

- Staff agrees with several of the key findings, including:
  - Reducing the number of relationships
  - Making greater use of 3<sup>rd</sup> parties for smaller investments
  - Making larger commitments to the best General Partners
  - Transitioning to a more vertical organizational structure
  - Enhancing delegated authority
  - Considering co-investment strategies
  - Providing wider communication about AIM's investment strategy, processes, and objectives
- Staff believes certain other issues need to be further explored, including:
  - Increasing staffing levels
  - Assessing the potential to collaborate with other asset classes within the Investment Office
  - Other issues as may become evident
- The key findings should be refined into detailed strategies and tactics, and an action plan should be developed.
  - It may be advisable to engage an appropriate 3<sup>rd</sup> party(s) to assist the Staff in this regard
  - Staff can begin implementing some of the findings immediately
- Moving this process forward will be a high priority for the AIM Team and will require significant effort.
  - Developing the strategies, tactics, and action plan are complex tasks that will require time, thought, and creativity
  - Ensuring a high level of communication with the parties involved during this process will be very important and time consuming
  - Implementing the action plan, once developed, will require substantial time

Staff seeks Investment Committee input regarding the Review so that feedback may be incorporated into the action plan.

### **Next Steps**

Staff proposes to prepare a preliminary action plan that addresses as many of the issues as possible by the December 2005 Investment Committee meeting.

AIM Staff and PCA will be available to answer any questions the Investment Committee may have.

**V. STRATEGIC PLAN:**

Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

Engaging a third party to assist the staff with development of the action plan would result in additional costs. While the costs can not yet be estimated, they are not expected to be substantial.

Prepared by: \_\_\_\_\_  
Joncarlo R. Mark  
Senior Portfolio Manager

\_\_\_\_\_  
Leon G. Shahinian  
Senior Investment Officer

\_\_\_\_\_  
Mark Anson  
Chief Investment Officer